

Forest and Land-Use Carbon Finance

*Dick Kempka, Vice President – Conservation
Molpus Woodlands Group*

**ENVIRONMENTAL MARKETS
and FINANCE SUMMIT**
October 29-31, 2019
Washington, D.C



Disclaimer

NOTHING HEREIN CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO SUBSCRIBE FOR OR BUY ANY SECURITY. NO SUCH OFFER TO SELL OR SOLICITATION OF AN OFFER TO SUBSCRIBE FOR OR BUY ANY SECURITY WILL BE MADE EXCEPT PURSUANT TO APPROPRIATE OFFERING DOCUMENTS TO BE PROVIDED TO POTENTIAL INVESTORS WHO ARE DULY QUALIFIED TO INVEST IN SUCH SECURITIES.

THIS PRESENTATION IS NOT INTENDED TO BE RELIED UPON AS THE BASIS FOR AN INVESTMENT DECISION, AND IS NOT, AND SHOULD NOT BE ASSUMED TO BE, COMPLETE. THE CONTENTS HEREIN ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE, AND EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR AS TO LEGAL, BUSINESS AND TAX ADVICE.

THERE CAN BE NO ASSURANCE THAT ANY POTENTIAL TRANSACTION DESCRIBED HEREIN WILL BE EXECUTED.

IN CONSIDERING PERFORMANCE OF INVESTMENTS REFERRED TO IN THESE MATERIALS, PROSPECTIVE TIMBERLAND INVESTORS SHOULD KEEP IN MIND THAT PRIOR PERFORMANCE OF MOLPUS INVESTMENTS IS NOT INDICATIVE OF FUTURE RESULTS AND THERE CAN BE NO ASSURANCE THAT MOLPUS WILL ACHIEVE COMPARABLE RESULTS IN THE FUTURE.

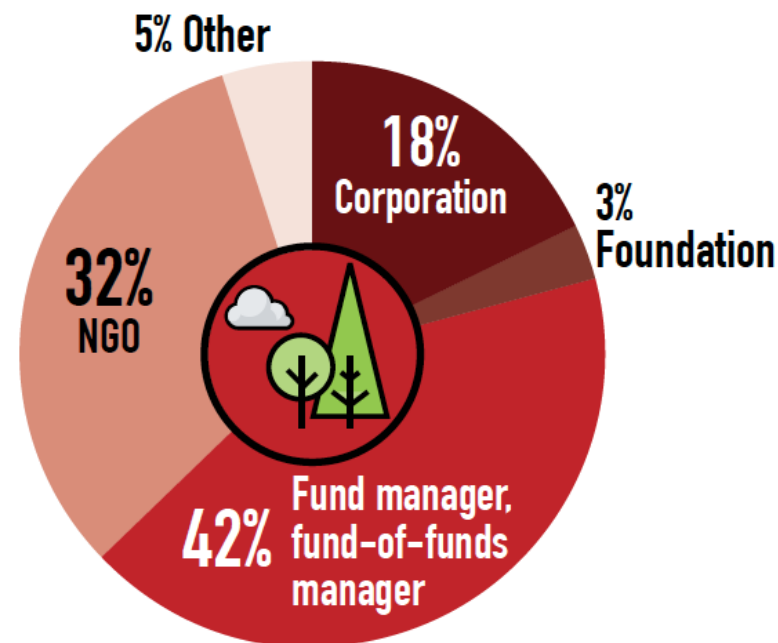
CERTAIN INFORMATION CONTAINED IN THESE MATERIALS CONSTITUTES “FORWARD-LOOKING STATEMENTS,” WHICH CAN BE IDENTIFIED BY THE USE OF TERMINOLOGY SUCH AS “MAY,” “WILL,” “SHOULD,” “BELIEVE,” “EXPECT,” OR “ESTIMATE,” THE NEGATIVES OF SUCH WORD, OR COMPARABLE TERMINOLOGY. DUE TO VARIOUS RISKS AND UNCERTAINTIES, ACTUAL EVENTS OR RESULTS OF THE ACTUAL PERFORMANCE OF A TIMBERLAND INVESTMENT MAY DIFFER MATERIALLY FROM THOSE CONTEMPLATED BY SUCH FORWARD-LOOKING STATEMENTS.

State of Private Investment in Conservation



Ecosystems Marketplace Report – State of Private Investment in Conservation 2016

- Natural working lands hold more than 30% of climate solution, receive less than 3% of climate finance globally.*
- Private capital flows to conservation investments totaled \$8.2B from 2004 to 2015 (up from \$2.8B in the 2014 report)*
- \$3.1B un-deployed at the end of 2015*



Habitat conservation
\$1.1B

*Ecosystems Marketplace Report – State of Private Investment in Conservation 2016



Ecosystem Services Demand Drivers

Globally, over 550 Payment for Ecosystem Services (PES) programs accounted for \$36–\$42 billion in annual transactions, including water, biodiversity, and forest/land use carbon initiatives.

Key drivers from market programs to guide successful carbon financing in the forest and land-use sectors:

- Demand
- Sellers
- Standards & Metrics
- Low transaction costs & friction
- Finance (+ risk mitigation)



Source: Nature Sustainability publication. "The global status and trends of payments for Ecosystem Services report". Salzman, Bennet, Carroll, Goldstein, & Jenkins.
https://www.nature.com/articles/s41893-018-0033-0?WT.mc_id=COM_NSustain_1803_Salzman



Climate Awareness (corporations, states, agencies) + Queued Green Finance



Members making up 40% of CDP's reporting firms state they have realized financial savings from emission reduction initiatives. A few years ago Disney came to that very same conclusion reflected in the CDP 2014 report; "Carbon pricing not only benefits the planet but businesses' bottom lines too."

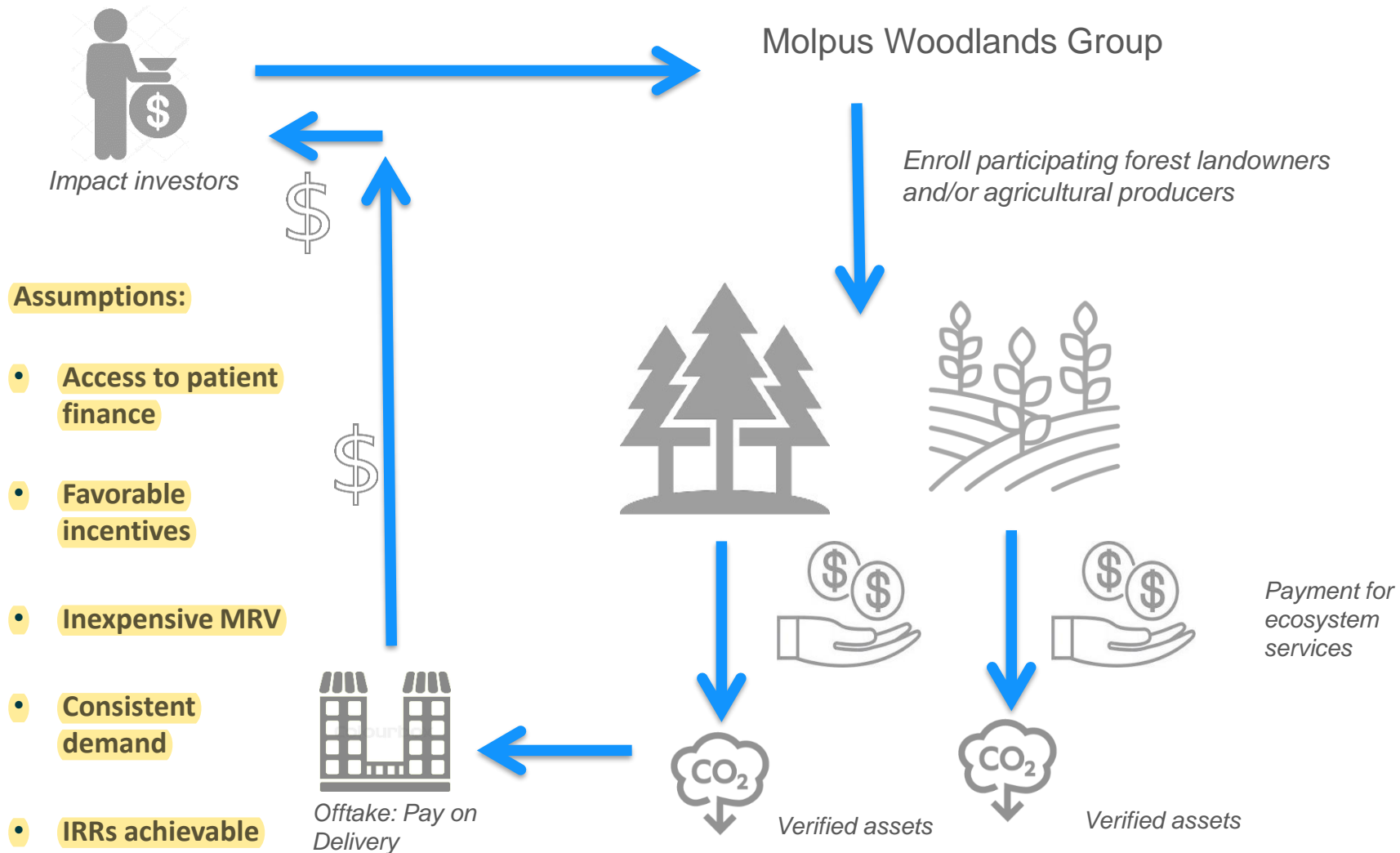
MEDIA SERVICES RESEARCH (IFC/UNESCAP/H5BC/CLIMATE BONDS INITIATIVE)/INFOGRAPHICS BY NISANSALA PERERA

Where - Demand needs cost optimization, standards, transparency, chain of custody and impact. Finance needs investable pipeline, cash flows, risk mitigation.

Desirable Financing Structure



Revolving Fund

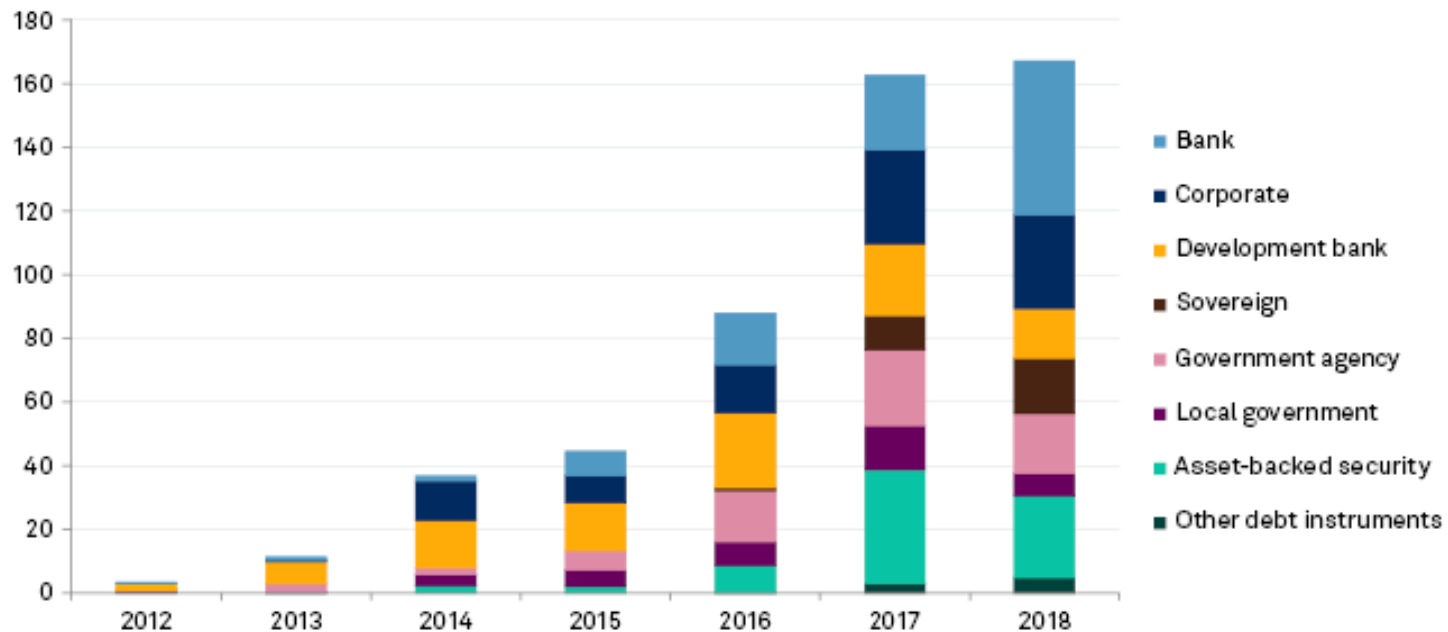




Green Bonds – Patient, Low Cost Capital

- Green bonds offer patient forms of capital from institutional markets at affordable rates.
- According to International Financial Service, London (IFSL) Research, climate bonds could be issued each year up to a level of \$500 billion for the next 20 years and still not exhaust the demand of the global market.

Annual green-labeled issuance by issuer type (\$B)



As of Jan. 29, 2019.

Source: S&P Global Ratings/Climate Bonds Initiative

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

EPA State Revolving Fund's (SRF)



Potential Green Bond Backing - EPA oversees two federally sponsored financial assistance programs

SRFs are capitalized from federal appropriations and 20% state matching contributions and retained earnings since inception. With a total capitalization of approximately \$126 billion, SRFs are authorized to provide financial assistance by making loans, purchasing debt obligations, securitizing financings and providing financial guarantees.



- (1) The Clean Water and Drinking Water State Revolving Funds (“SRFs”).
- (2) Clean Water State Revolving Fund (CWSRF) – Congress established in the Water Quality Act of 1987.



Key SRF features and facts:

- **20-year Term** - Make direct loans for terms of up to 20 years.
- **Refinance Debt** - Buy or refinance the debt obligation of municipalities and inter-municipal and interstate agencies within the State.
- **Provide Financial Backing** - SRF's are authorized “to guarantee, or purchase insurance for, local obligations where such action would improve credit market access or reduce interest rates.”
- **Untapped** - Over 33,000 transactions nationally, but only one has taken advantage of guarantee authority in the capital markets
- **NY Example** - New York State Energy Research and Development Authority (NYSERDA) issued a \$23.4 million AAA/Aaa rated green bond to fund residential energy-efficiency projects:
 - Achieved the bond guarantee from the New York State Environmental Facilities Corporation (EFC), which manages the Clean Water State Revolving Fund (CWSRF) in New York.
 - NYSERDA established a legal precedent that has a bearing on impact financing.
 - A state's SRF can offer financial assistance to NGOs and businesses that can establish the link between emissions and water pollution.
 - The benefit of the credit enhancement facility is that it does not detract from the traditional SRF funding capacity for traditional sewage and other clean water projects.
- **Vast Growth Capacity** - The combined 51 SRFs across the country have over \$1 trillion of financial guaranty capacity.

<https://www.cbd.int/financial/trustfunds/usa-fundmanagement.pdf>



Keys to Green Bond Being used for Forest Conservation Finance

- **NY Example** – Like New York, identify that atmospheric deposition from fossil fuel combustion is a significant source of water quality impairment, thus supporting the funding of strategies that seek to mitigate greenhouse gas emissions.
- **Follow Bond Principles** - Issue a green bond according to the recognized Green Bond Principles (guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market) backed by the SRF credit enhancement to protect in the event of underperformance.
- **Replicate** - Appeal is that it can be used repeatedly throughout the country to fund land use and forest conservation.
- **Promote Land Based Solutions** - Variations of land-based climate solutions appear in more than 75% of individual country commitments to the Paris Agreement, yet renewable energy, energy efficiency and clean transport together receive nearly 30 times the amount of public mitigation investment that land-based solutions receive.
- **Expand Current Forest Interest** - Of the funding that is set aside for natural climate solutions, the vast majority tends to focus on tropical forest protection in developing countries.

"Green bond issuance in 2019 will pass the \$200bn mark for the first time. That's welcome. However the global climate finance goal is to reach **\$1trillion in annual green investment early in the 2020s** & build from there."

Sean Kidney, CEO, Climate Bonds Initiative

